

VILLAGE OF LAWRENCE, MICHIGAN
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended February 29, 2008

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Lawrence, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lawrence, Michigan (the Village) as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lawrence, Michigan as of February 29, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2008 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2-5 and 30-36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Seber Tans, PLC
Kalamazoo, Michigan

August 7, 2008



Village of Lawrence
157 N. Paw Paw
P.O. Box 217
Lawrence Michigan 49064

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Village as a whole as well as providing a view of the Village's longer-term finances. Fund financial statements show how services were financed in the short term and also show what remains for future spending.

The Village as a Whole

The Village's combined net assets showed a slight improvement during the 2007/2008 fiscal year. Factors contributing to this slight improvement are found generally within the governmental activities of the Village. The table below shows a summary of the net assets at February 28:

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 697,394	\$ 565,296	\$ 976,513	\$ 919,866	\$ 1,673,907	\$ 1,485,162
Capital assets	425,826	452,983	3,362,687	2,839,061	3,788,513	3,292,044
Total assets	1,123,220	1,018,279	4,339,200	3,758,927	5,462,420	4,777,206
Current liabilities	81,436	69,043	134,200	41,808	215,636	110,851
Noncurrent liabilities	---	---	1,435,682	1,255,533	1,435,682	1,255,533
Total liabilities	81,436	69,043	1,569,882	1,297,341	1,651,318	1,366,384
Net assets:						
Invested in capital assets, net of related debt	425,826	452,983	1,891,690	1,625,061	2,317,516	2,078,044
Restricted	138,528	82,068	---	---	138,528	82,068
Unreserved	477,430	414,185	877,628	836,525	1,355,058	1,250,710
Total net assets	<u>\$ 1,041,784</u>	<u>\$ 949,236</u>	<u>\$ 2,769,318</u>	<u>\$ 2,461,586</u>	<u>\$ 3,811,102</u>	<u>\$ 3,410,822</u>

Since 2005 when the Village hired its first Village Administrator to oversee the day to day operations of the Village fiscal benefits have been: regular monitoring of expenses, enhanced control of both income and expenses and greatly improved investment of Village surplus funds. Other benefits include improving supervision of general operations within the Village, improving grant opportunities, improving collaboration with other municipal officials, increasing growth potential for the area, and providing a positive communication channel for Village elected officials. The addition of this position has proven to be not only cost effective, but has allowed the elected officials to focus on policy and future growth for the Village.

In 2007 the streamlining of the Utility Billing process resulted in increased efficiency of calculation and production of billings with time spent each month decreased dramatically. The utility bills were also reformatted so they list the quarterly basic charge separate from the quarterly usage in an effort to be more explanatory to the customer. In addition the back of the billing card is now being used to communicate important information to the residents each month.

More dramatic changes are planned to increase efficiency within the office and they include the purchase of an accounting software system that will interface with the other computer accounting systems so it is less likely to have human error entries, fewer entries will need to be made, and accurate reports can be generated in a timely manner. Another significant change planned is the purchase of a copier/scanner/printer, to replace the current equipment being used which does not include scanning or printing capabilities. It is anticipated these improvements will be made in the 2008/2009 budget year. Going forward, we anticipate these changes will benefit the Village in increased efficiencies regarding these critical record keeping activities.

The Village's Funds

Municipal funding requires income and expenses to be divided into five specific purpose funds. These funds are: General Fund, Water Fund, Waste Water Fund, Major Street Fund and Local Street Fund.

The General Fund pays for the majority of operating expenses including administration, local police department operation (including salaries), general labor for areas of general fund activity, maintenance of the parks, building maintenance, DPW equipment purchase and maintenance, sidewalk maintenance, refuse disposal, office equipment purchase and maintenance, holiday decorations, elections, zoning administration, etc. The General Fund also covers expenses from other Fund balances when required. Monitoring and improved investment of Village General Fund CDs has increased income by 3.9%.

The Water Fund pays for both minor and major repairs of the Village's water system as well as general maintenance of the system including administration, labor costs, spare parts inventory, electrical usage by the well pumps, security for the system, chemicals used in the treatment process, laboratory costs associated with DEQ requirements, etc. The Water Fund pays the General Fund for equipment use through a rental program; the rental use fees help pay for equipment purchased using funds from the General Fund.

The Water Fund receives \$75.00 per month income from a lease agreement with Internet 2000 (I2k) for an antenna mounted on top of the existing water tower to provide internet service for those residents wishing to pay a nominal fee for the service. This is a five year agreement and after two years the income to the water fund changes to 15% of the profits received by I2k or \$75.00 per month; whichever amount is greater. The income is allocated to a system improvement line that can be used for future maintenance of the system.

The Water Fund is also required to pay back the Van Buren County Revolving Loan Fund for a low interest loan that was acquired to partially fund the planning, engineering, and construction of a new water tower to be constructed in the Lawrence Crandall Business Centre. Construction of the proposed water tower was started in late 2007. The Local Development Finance Authority (LDFA) has committed to pay back the Village Water Fund through their annual tax captures from the LDFA designated lots. The first payment to the Van Buren County Revolving Loan Fund is due in August 2008.

The Waste Water Fund pays for both minor and major repairs of the Village's Waste Water system as well as general maintenance of the system including labor costs, spare parts inventory, electrical usage by the four lift stations, security for the system, chemicals used in the system, laboratory costs of discharging Waste Water associated with DEQ requirements, etc. The Waste Water Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

The Waste Water Fund is also required to pay back the Van Buren County Revolving Loan Fund for a low interest loan acquired to construct the Waste Water lagoon system currently in use.

The Major Street Fund pays for minor and major repairs of all streets classified as part of the Major Street System including storm drainage systems, administration, tree trimming and planting programs, etc. The Village receives funds monthly from the State of Michigan through the Act-51 funding system which is calculated by the state on a lineal footage basis. The Major Street Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

The Local Street Fund pays for minor and major repairs of all streets classified as part of the Local Street System including storm drainage systems, administration, tree trimming and planting programs, etc. The Village receives funds monthly from the State of Michigan through the Act-51 funding system which is calculated by the state on a lineal footage basis. The Local Street Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

Governmental Activities

A conservative estimate of budget revenues was made in light of possible cutbacks in State Revenue Sharing and Act-51 funds. Actual revenues were approximately 1.0% higher than originally budgeted at the beginning of FY 2007/2008.

- a) The Local Development Funding Authority (LDFA) received from the Village approximately \$5,800 in 2007/2008 from the general fund for taxes captured in the Business Centre.

- b) Additional revenue was realized from reinvesting mature CDs; interest rates were lower in 2007/2008 resulting in lower yields than budgeted. These CDs were invested using a staggered maturity date sequence for future investment options.
- c) The Village continued supporting work completed by the Downtown Development Authority (DDA). Programs to improve aesthetics in the district through grant programs for district residents and businesses were financed by taxes captured within the district.
- d) The Village continued to work diligently with the LDFA to enhance growth within the Business Centre which will increase both Village tax base and local job opportunities for residents. The construction of an additional water tower in the Business Centre was started and funds for the project, in the form of grants, were secured from the Michigan Economic Development Corporation and the Van Buren County Economic Development Corporation. A low interest loan from the Van Buren County Revolving Loan Fund was also secured for the project.
- e) The Village continued its long-term planning workshops with representation from the Village Council and committees, the LDFA and DDA, Township officials and committee heads and the Lawrence Area Business Association. This joint activity continues to focus on the goals of Master Plan including strategy, implementation, and area economic growth.

Business-Type Activities

The Village's business-type activity consists of the Water and Waste Water Funds. The Village provides these services to 100% of the Village residents (approximately 400 customers). We also provide Water and Waste Water services to a few residents living outside the Village limits who are Lawrence Township residents. The customers living in the Township receiving services pay a rate of 1-1/2 times the rate of a Village resident. The Van Buren Intermediate School System, located within the Village limits, is currently the largest user of the two systems.

- a) Combined revenues from the sale of Water and Sanitary Sewer were 1.16% higher than initially budgeted. This can be attributed to increased usage by both residents and businesses.
- b) Substantial increases were realized from interest gained on investment of Water and Sanitary Sewer CDs into higher interest bearing accounts. They were also invested with staggered maturity dates which will allow for increased investment opportunities in the future.
- c) An increase in equipment rental was the result of appropriate allocation of the Caterpillar Loader/Backhoe which is owned by the Water Fund.
- d) Positive Fund Balance in the Water and Sanitary Sewer Funds was achieved through both lower operating expenses and maintenance costs.

Restrictions on Funds

No restrictions on funds have been imposed by the Village; any restrictions or other limitations come at the direction of the State and Federal Governments. The United States Department of Agriculture (USDA) Loan to the Water Fund was not closed out as of the end of FY 2007/2008.

Significant Budget Variances

Variances between the original budget and final budget greater than \$10,000 FY 2007/2008 included:

- a) Amendments to the General Fund included increased expenses for repairs and routine maintenance of equipment which exclude labor expenses. Additionally the Village purchased a used front plow for one plow truck from the Cass County Road Commission.
- b) The Local Street Fund received slightly more revenue due to income from real property taxes. Additionally, revenue from the State Act-51 allotments were slightly higher than anticipated.
- c) Interest income was substantially lower due to lower interest rates on investments for the Fund.
- d) Expenses were increased by approximately 0.96% due to higher routine maintenance costs.
- e) The Water Fund was amended to reflect a revenue increase by 1.2% which is attributed to residents increased water usage; expenses were slightly less by 1.16% due to increased depreciation within the system.
- f) The Waste Water Fund was amended to reflect an estimated increase in revenue by 1.24%; expenditures were estimated to decrease by 1.19% due to lower telephone, operating supply, electric utility, equipment rental, and maintenance costs.

Significant Assets or Long-Term Debt

During FY 2007/2008, Long-Term Debt activity remains with the Water and Sanitary Sewer systems, with terms of 16 and 35 years remaining for repayment of the loans.

In 2007, one commitment for capital expenditures by the Water Fund was completed. This was a new well at an estimated total cost of \$200,000. \$160,000 was funded with a Michigan Economic Development (MEDC) Grant with a local match requirement of \$40,000 to come from the Water Fund. Funding for the project was secured from MEDC in late 2005. Engineering for this project was completed, reviewed, and approved by the Department of Environmental Quality. Construction was scheduled to begin in July 2006. Due to construction change orders that resulted from DEQ required testing performed on the test well, the project was not completed in 2006 and the project was completed in 2007. Total capital acquisitions of \$169,009 were incurred in 2007.

Additional capital asset projects included pursuing funding from the Michigan Economic Development Corporation (MEDC) for a \$250,000 grant and the Van Buren County Economic Development Corporation Revolving Loan Fund (RLF) for a combined grant/loan amount of \$150,000 to fund a proposed elevated water storage tank to be constructed in the Lawrence-Crandall Business Centre. Estimated cost for this project was \$500,000 but due to increased prices for steel, labor, fuel etc. the final bid for the project came in at \$676,000. To complete the funding package, the Village requested and was granted an additional \$109,000 low interest loan from the Van Buren County Economic Development Corporation. Total expenses of approximately \$485,168 were incurred to complete work for this project in 2007. Additional funding to complete the project will come from the Village's Water reserve fund. Scheduled completion of the project is mid-year 2008.

The Village's investment in capital assets for its governmental and business-type activities as of February 29 consisted of the following:

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 33,244	\$ 33,244	\$ ---	\$ ---	\$ 33,244	\$ 33,244
Infrastructure	312,941	312,941	5,311,315	4,653,755	5,624,256	4,966,696
Buildings and improvements	277,282	277,282	---	---	277,282	277,782
Equipment	142,917	142,917	137,215	137,215	280,132	280,132
Vehicles	124,277	124,277	---	---	124,277	124,277
Totals	<u>\$ 890,661</u>	<u>\$ 890,661</u>	<u>\$ 5,448,530</u>	<u>\$ 4,790,970</u>	<u>\$ 6,339,191</u>	<u>\$ 5,681,631</u>

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives.

If you have any questions about this report or need additional information, we encourage you to contact the Village Hall at 269-674-8161 or inquire at the Village Hall, 157 N. Paw Paw Street, Lawrence, Michigan 49064 (P.O. Box 217).

Village of Lawrence, Michigan
Statement of Net Assets
February 29, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 273,156	\$ 331,077	\$ 604,233	\$ 14,565
Investments and restricted cash	383,821	476,699	860,520	15,000
Accounts receivable	10,208	57,146	67,354	-
Taxes receivable	26,235	-	26,235	9,302
Due from Component Units	895	-	895	-
Internal balances	3,079	53,746	56,825	-
Inventory	-	57,845	57,845	-
Capital assets - net	425,826	3,362,687	3,788,513	139,009
Total Assets	\$ 1,123,220	\$ 4,339,200	\$ 5,462,420	\$ 177,876
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 27,690	\$ 84,433	\$ 112,123	\$ -
Accrued interest payable	-	4,970	4,970	-
Customer deposits	-	6,400	6,400	-
Internal balances	53,746	3,079	56,825	-
Due to primary government	-	-	-	895
Due to component units	-	-	-	-
Noncurrent liabilities				
Due within one year	-	41,718	41,718	-
Due in more than one year	-	1,429,282	1,429,282	-
Total Liabilities	81,436	1,569,882	1,651,318	895
Net Assets				
Invested in capital assets, net of related debt	425,826	1,891,690	2,317,516	139,009
Restricted for:				
Streets	138,528	-	138,528	-
Unreserved	477,430	877,628	1,355,058	37,972
Total Net Assets	1,041,784	2,769,318	3,811,102	176,981
Total Liabilities and Net Assets	\$ 1,123,220	\$ 4,339,200	\$ 5,462,420	\$ 177,876

**Village of Lawrence, Michigan
Statement of Activities
February 29, 2008**

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets		
			Governmental Activities	Business-Type Activities	Totals
Primary government					
Governmental activities:					
General government	\$ (100,773)	\$ 3,413	\$ (97,360)	\$ -	\$ (97,360)
Public safety	(91,169)	17	(91,152)	-	(91,152)
Public works	(201,010)	6,308	(194,702)	-	(194,702)
Depreciation (unallocated)	(27,157)	-	(27,157)	-	(27,157)
TOTAL GOVERNMENTAL ACTIVITIES	(420,109)	9,738	(410,371)	-	(410,371)
Business-type activities					
Water	(246,153)	175,976	-	(70,177)	(70,177)
Sewer	(172,748)	149,739	-	(23,009)	(23,009)
TOTAL BUSINESS-TYPE ACTIVITIES	(418,901)	325,715	-	(93,186)	(93,186)
TOTAL PRIMARY GOVERNMENT	(839,010)	335,453	(410,371)	(93,186)	(503,557)
Component Units					
Downtown Development Authority	\$ (9,005)	\$ 2,968	\$ -	\$ -	\$ (6,037)
Local Development Finance Authority	(4,159)	-	-	-	(4,159)
TOTAL COMPONENT UNITS	(13,164)	2,968	-	-	(10,196)
GENERAL REVENUES					
Property taxes		\$ 213,358	\$ 213,358	\$ -	\$ 213,358
State shared revenue		227,197	227,197	-	227,197
Interest and investment income		18,363	18,363	37,867	56,230
Miscellaneous		44,001	44,001	363,051	407,052
TOTAL GENERAL REVENUES AND TRANSFERS		502,919	502,919	400,918	903,837
INCREASE IN NET ASSETS			92,548	307,732	400,280
Net assets at beginning of year			949,236	2,461,586	3,410,822
NET ASSETS AT END OF YEAR			\$ 1,041,784	\$ 2,769,318	\$ 3,811,102
					\$ 176,981

Village of Lawrence, Michigan
Combined Balance Sheet - Governmental Funds and the
Reconciliation to the Statement of Net Assets
February 29, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- mental</u>
ASSETS				
Cash and cash equivalents	\$ 101,016	\$ 97,029	\$ 75,111	\$ 273,156
Investments	383,821	-	-	383,821
Accounts receivable	4,407	5,801	-	10,208
Taxes receivable	11,265	9,980	4,990	26,235
Due from component units	895	-	-	895
Due from other funds	50,262	-	4,013	54,275
Total Assets	\$ 551,666	\$ 112,810	\$ 84,114	\$ 748,590
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 20,629	\$ 4,467	\$ 2,594	\$ 27,690
Due to other funds	53,607	38,540	12,795	104,942
Total Liabilities	74,236	43,007	15,389	132,632
Fund Balances				
Reserved for street services	-	69,803	68,725	138,528
Unreserved	477,430	-	-	477,430
Total Fund Balances	477,430	69,803	68,725	615,958
Total Liabilities and Fund Balances	\$ 551,666	\$ 112,810	\$ 84,114	\$ 748,590
Reconciliation of the Combined Balance Sheet - Governmental Funds to the Statement of Net Assets:				
Total governmental fund balances				\$ 615,958
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital is			890,661	
Accumulated depreciation is			(464,835)	
				425,826
Net Assets of Governmental Activities				\$ 1,041,784

Village of Lawrence, Michigan
Combined Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended February 29, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- mental</u>
REVENUES				
Property taxes	\$ 145,606	\$ 45,168	\$ 22,584	\$ 213,358
Licenses and permits	3,786	-	-	3,786
Intergovernmental revenues	122,187	83,830	21,180	227,197
Charges for service	9,738	-	-	9,738
Interest	16,766	939	658	18,363
Miscellaneous	78,692	870	906	80,468
Total Revenues	<u>376,775</u>	<u>130,807</u>	<u>45,328</u>	<u>552,910</u>
EXPENDITURES				
General government	100,773	-	-	100,773
Public safety	91,169	-	-	91,169
Public works	121,588	79,257	40,418	241,263
Capital outlay	-	-	-	-
Total Expenditures	<u>313,530</u>	<u>79,257</u>	<u>40,418</u>	<u>433,205</u>
EXCESS OF REVENUES OVER EXPENDITURES	63,245	51,550	4,910	119,705
Fund balances at beginning of year	<u>414,185</u>	<u>18,253</u>	<u>63,815</u>	<u>496,253</u>
Fund Balances at End of Year	<u>\$ 477,430</u>	<u>\$ 69,803</u>	<u>\$ 68,725</u>	<u>\$ 615,958</u>

Village of Lawrence, Michigan
Reconciliation of the Combined Statements of Revenues,
Expenditures and Changes in Fund Balances - Governmental Funds
To the Statement of Activities
For the Year Ended February 29, 2008

Net change in fund balance - total governmental funds	\$ 119,705
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	<u>(27,157)</u>	<u>(27,157)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 92,548</u>
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Village of Lawrence, Michigan
Statement of Net Assets - Proprietary Fund
February 29, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 194,724	\$ 136,353	\$ 331,077
Investments	240,938	235,761	476,699
Accounts receivable	30,567	26,579	57,146
Due from other funds	74,472	-	74,472
Inventory	29,020	28,825	57,845
Total Current Assets	<u>569,721</u>	<u>427,518</u>	<u>997,239</u>
Property and Equipment			
Water system	3,198,195	-	3,198,195
Sewer system	-	2,250,335	2,250,335
	<u>3,198,195</u>	<u>2,250,335</u>	<u>5,448,530</u>
Less accumulated depreciation	(946,878)	(1,138,965)	(2,085,843)
Net Property and Equipment	<u>2,251,317</u>	<u>1,111,370</u>	<u>3,362,687</u>
Total Assets	<u>\$ 2,821,038</u>	<u>\$ 1,538,888</u>	<u>\$ 4,359,926</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 79,824	\$ 4,609	\$ 84,433
Accrued interest payable	4,970	-	4,970
Customer deposits	6,400	-	6,400
Due to other funds	-	23,805	23,805
Current maturities of long-term debt	26,718	15,000	41,718
Total Current Liabilities	<u>117,912</u>	<u>43,414</u>	<u>161,326</u>
Long-Term Debt, net of current maturities	1,209,282	220,000	1,429,282
Net Assets			
Invested in capital assets, net of related debt	1,015,317	876,373	1,891,690
Unrestricted	478,527	399,101	877,628
Total Net Assets	<u>1,493,844</u>	<u>1,275,474</u>	<u>2,769,318</u>
Total Liabilities and Net Assets	<u>\$ 2,821,038</u>	<u>\$ 1,538,888</u>	<u>\$ 4,359,926</u>

Village of Lawrence, Michigan
Schedule of Revenues, Expenditures, and Changes in
Net Assets - Proprietary Fund
For the Year Ended February 29, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 163,772	\$ 149,464	\$ 313,236
Miscellaneous	4,660	275	4,935
Late charges	4,531	-	4,531
Equipment rental	1,883	-	1,883
Connection charges	1,130	-	1,130
Total Operating Revenues	<u>175,976</u>	<u>149,739</u>	<u>325,715</u>
OPERATING EXPENSE			
Depreciation	86,706	47,228	133,934
Contracted services	55,908	68,669	124,577
Repairs and maintenance	1,758	8,213	9,971
Equipment rental	23,110	19,723	42,833
Utilities	6,822	5,817	12,639
Miscellaneous	11,510	1,012	12,522
Legal and accounting	5,310	4,475	9,785
Supplies	1,901	5,081	6,982
Operating labor costs	648	-	648
Printing and publishing	498	30	528
Total Operating Expenses	<u>194,171</u>	<u>160,248</u>	<u>354,419</u>
OPERATING INCOME	(18,195)	(10,509)	(28,704)
NON-OPERATING INCOME (EXPENSE)			
Capital grant revenue	363,051	-	363,051
Interest income	12,270	25,597	37,867
Interest expense	(51,982)	(12,500)	(64,482)
Net Non-Operating Expense	<u>323,339</u>	<u>13,097</u>	<u>336,436</u>
INCREASE IN NET ASSETS	305,144	2,588	307,732
Net assets at beginning of year	<u>1,188,700</u>	<u>1,272,886</u>	<u>2,461,586</u>
Net Assets at End of Year	<u>\$ 1,493,844</u>	<u>\$ 1,275,474</u>	<u>\$ 2,769,318</u>

Village of Lawrence, Michigan
Statement of Cash Flows - Proprietary Fund
For the Year Ended February 29, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from:			
Receipts from customers	\$ 180,024	\$ 151,598	\$ 331,622
Other receipts	1,883	-	1,883
Customers security deposits	(492)	-	(492)
Total cash received	<u>181,415</u>	<u>151,598</u>	<u>333,013</u>
Cash paid for:			
Contracted services	(55,908)	(64,060)	(119,968)
Labor and equipment rental	(23,758)	(19,723)	(43,481)
Repairs and maintenance	2,513	(8,213)	(5,700)
Miscellaneous	(12,008)	(1,042)	(13,050)
Utilities	(6,822)	(5,817)	(12,639)
Supplies	(4,658)	(5,934)	(10,592)
Legal and accounting	(5,310)	(4,475)	(9,785)
Total cash paid	<u>(105,951)</u>	<u>(109,264)</u>	<u>(215,215)</u>
Net Cash Provided by Operating Activities	75,464	42,334	117,798
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Internal payments from (to) other funds	138,332	(224,024)	(85,692)
Proceeds from loan	209,000	-	209,000
Capital grant revenue	374,711	-	374,711
Interest paid on bond	(48,461)	(12,500)	(60,961)
Principal payments on bond	(12,000)	(15,000)	(27,000)
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>661,582</u>	<u>(251,524)</u>	<u>410,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of capital assets	(582,007)	-	(582,007)
Proceeds from (purchase of) investments	(66,921)	217,456	150,535
Interest income	12,270	25,597	37,867
Net Cash Provided by (Used In) Investing Activities	<u>(636,658)</u>	<u>243,053</u>	<u>(393,605)</u>
Net Increase in Cash and Cash Equivalents	100,388	33,863	134,251
Cash and cash equivalents at beginning of year	<u>94,336</u>	<u>102,490</u>	<u>196,826</u>
Cash and Cash Equivalents at End of Year	<u>\$ 194,724</u>	<u>\$ 136,353</u>	<u>\$ 331,077</u>

Village of Lawrence, Michigan
Statement of Cash Flows - Proprietary Fund
For the Year Ended February 29, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ (18,195)	\$ (10,509)	\$ (28,704)
Adjustments to reconcile operating income to cash used in			
Depreciation	86,706	47,228	133,934
Decrease (increase) in:			
Accounts receivable	5,931	1,859	7,790
Inventory	(2,757)	(853)	(3,610)
Increase (decrease) in:			
Accounts payable	4,271	4,609	8,880
Customer deposits	(492)	-	(492)
Net Cash Provided by Operating Activities	<u><u>\$ 75,464</u></u>	<u><u>\$ 42,334</u></u>	<u><u>\$ 117,798</u></u>

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the Village of Lawrence, Michigan (the Village) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

Reporting Entity

The Village was incorporated as a general law village under act of the legislature approved March 24, 1869, and operates under a Council-President form of government. The Village provides highways and streets, water and sewer, parks and recreation, public improvement, planning and zoning, and general administrative services. Fire protection and quick response services are provided by the Township of Lawrence. Effective November 2002, police protection is provided through contract from the Sheriff of Van Buren County. The financial statements of the Village do not reflect the activity of the fire department or quick response service. Educational services are provided through the local school district, which is a separate entity.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Village and its component units. In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component units discussed below are included in the Village's reporting entity because of their financial relationship with the Village.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the combined financial statements. The discretely presented component units are entities that are legally separate from the Village, but for which the Village is financially accountable.

Downtown Development Authority (DDA)

The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of eight members, is recommended by the Village President and approved by the Village Council. In addition, the DDA's budget is subject to approval by the Village Council. The complete financial statements of the DDA are included within the Village's general purpose financial statements.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Local Development Finance Authority (LDFA)

The LDFA was created to encourage local development, prevent conditions of unemployment, promote economic growth, and authorize the creation and implementation of development and financing plans in the Village. The LDFA's governing body, which consists of seven members, is recommended by the Village President and approved by the Village Council. In addition, the LDFA's budget is subject to approval by the Village Council. The complete financial statements of the LDFA are included within the Village's general purpose financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Taxes Receivable

The Village's tax is levied on each July 1st on the taxable valuation of property (as defined by state statutes) located in the Village as of the preceding July 31st. Uncollected taxes are purchased by the County within 120 days following the close of the fiscal year of the tax levy. Uncollectible accounts are charged back to the Village by the County.

The 2007 taxable valuation of the Village totaled \$12,995,952, on which ad valorem taxes levied consisted of 11.0727 mills for operating purposes, 2.9525 mills for major street services, and 1.4763 mills for local street services. These amounts are recognized in the respective General and Special Revenue financial statements as taxes receivable or as tax revenue.

Fund Based Statements

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water production and distribution system.

The Sewer Fund accounts for the activities of the sewage collection and treatment system.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Taxes are levied on July 1st and are collected through February 29 by various local units for the Village. The local units then remit to the Village any delinquent real property taxes by June 30.

Inventories and Prepaid Costs

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, buildings, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Building improvements	15-30 years
Water and sewer lines	40-50 years
Roads	10-30 years
Other infrastructure	5-20 years
Vehicles	3-5 years
Office equipment	5-7 years
Computer equipment	3-5 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE A – Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications

Comparative data is not included in the Village's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Village's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the December Village Council meeting, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to March 1st, the budget is legally adopted by the Village Council.
4. The Village President is authorized to transfer up to \$1,000 of budgeted amounts between activities within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Major Street Fund, Local Street Fund, and Water and Sewer Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Village for these budgeted funds were adopted on the line item level.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE B - Stewardship, Compliance, and Accountability (Continued)

The Village had one significant budget variance in the general fund for department of public works in the amount of \$6,244.

The Village had one significant budget variance in the major street fund for winter maintenance in the amount of \$11,663.

The Village had one significant budget variance in the local street fund for winter maintenance in the amounts of \$6,394.

NOTE C – Cash and Investments

At February 29, 2008, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Govern- mental Activities	Business- Type Activities	Total Primary Government	Component Units
Cash and cash equivalents	\$ 273,156	\$ 331,077	\$ 604,233	\$ 14,565
Investments	383,821	476,699	860,520	15,000
TOTAL	\$ 656,977	\$ 807,776	\$1,464,753	\$ 29,565

The breakdown between deposits and investments is as follows:

	Primary Govern- ment	Component Units
Bank deposits (checking, savings and money market accounts)	\$ 604,233	\$ 14,565
Investments (certificates of deposit)	860,520	15,000
TOTAL	\$1,464,753	\$ 29,565

Deposits with financial institutions

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of February 29, 2008, \$1,327,427 of the Village's bank balances of \$1,427,427 was exposed to custodial credit risk because it was uninsured.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE C – Cash and Investments (Continued)

The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes and the Village's investment policy authorize the Village to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds composed of otherwise legal investments. The Village's investments are carried at cost, which approximates fair market value. The Village's investments are in accordance with statutory authority.

The Village's investments are subject to several types of risk, which are discussed below:

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Village will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the Village's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government are not considered to have credit risk.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE C – Cash and Investments (Continued)

Concentration of Credit Risk

State statutes and the Village's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the Village's total investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Fifth Third Bank	Certificate of deposits	\$ 860,520

NOTE D – Capital Assets

Capital asset activity of the Village's governmental activities was as follows:

	<u>March 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>February 29, 2008</u>
Capital assets not being depreciated:				
Land	\$ 33,244	\$ ---	\$ ---	\$ 33,244
Capital assets being depreciated:				
Parking lots	60,208	---	---	60,208
Paved recreational areas	5,882	---	---	5,882
Outside construction	73,233	---	---	73,233
Buildings and improvements	204,049	---	---	204,049
Equipment	142,917	---	---	142,917
Vehicles	124,277	---	---	124,277
Infrastructure	246,851	---	---	246,851
	<u>857,417</u>	<u>---</u>	<u>---</u>	<u>857,417</u>
Less accumulated depreciation	<u>(437,678)</u>	<u>(27,157)</u>	<u>---</u>	<u>(464,835)</u>
Net capital assets being depreciated	<u>419,739</u>	<u>(27,157)</u>	<u>---</u>	<u>392,582</u>
Governmental activities capital total – net of accumulated depreciation	<u>\$ 452,983</u>	<u>\$ (27,157)</u>	<u>\$ ---</u>	<u>\$ 425,826</u>

Depreciation expense was not charged to activities as the Village considers its assets to impact multiple activities and allocation is not practical.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE D – Capital Assets (Continued)

Capital asset activity of the Village's proprietary fund type activities was as follows:

	March 1, 2007	Additions	Disposals	February 29, 2008
Capital assets being depreciated:				
Water supply system	\$ 1,827,189	\$ 657,560	\$ ---	\$ 2,484,749
Water mains	641,395	---	---	641,395
Water equipment	72,051	---	---	72,051
Sewer lagoon	1,499,858	---	---	1,499,858
Sewer lines	685,313	---	---	685,313
Sewer equipment	65,164	---	---	65,164
	<u>4,790,970</u>	<u>657,560</u>	<u>---</u>	<u>5,448,530</u>
Less accumulated depreciation	(1,951,909)	(133,934)	---	(2,085,843)
Net capital assets being depreciated	<u>\$ 2,839,061</u>	<u>\$ 523,626</u>	<u>\$ ---</u>	<u>\$ 3,362,687</u>

Capital asset activity of the Village's component units was as follows:

	March 1, 2007	Additions	Disposals	February 29, 2008
Capital assets not being depreciated:				
Land	\$ 125,000	\$ ---	\$ ---	\$ 125,000
Capital assets being depreciated:				
Light poles	17,844	---	---	17,844
Less accumulated depreciation	(1,286)	(2,549)	---	(3,835)
Net capital assets being depreciated	<u>16,558</u>	<u>(2,549)</u>	<u>---</u>	<u>14,009</u>
Capital total – net of accumulated depreciation	<u>\$ 141,558</u>	<u>\$ (2,549)</u>	<u>\$ ---</u>	<u>\$ 139,009</u>

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE E – Interfund Receivables and Payables

The composition of interfund balances as of February 29, 2008, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Sewer Fund	\$ 3,079
	Major Street Fund	34,430
	Local Street Fund	12,753
Water Fund	General Fund	53,607
	Local Street Fund	42
	Major Street Fund	96
	Sewer Fund	20,727
Local Street Fund	Major Street Fund	4,013
		<u>\$ 128,747</u>

Due to/from primary government and component units:

Receivable Fund	Payable Fund	Amount
General Fund	Downtown Development Authority	2,663
		<u>\$ 2,663</u>

NOTE F – Long-Term Debt

The individual fund long-term debt and other long-term obligations of the Village and the changes therein, are summarized as follows:

	Balance at March 1, 2007	Additions	Deductions	Balance at February 29, 2008
PROPRIETARY FUNDS				
1981 general obligation bonds in the amount of \$520,000. Principal payments are due annually on January 1, with interest at 5% payable semi-annually.	\$ 250,000	\$ ---	\$ (15,000)	\$ 235,000
2002 revenue bonds in the amount of \$1,000,000. Principal payments are due annually on January 1, with interest at 4.75% payable semi-annually.	964,000	---	(12,000)	952,000
Note payable to Economic Development Corporation of Van Buren County, Principal payments are due annually on August 30, bearing interest at 3.50%.	75,000	209,000	---	284,000
TOTAL PROPRIETARY FUNDS	<u>\$ 1,289,000</u>	<u>\$ 209,000</u>	<u>\$ (27,000)</u>	<u>\$ 1,471,000</u>

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE F – Long-Term Debt (Continued)

Annual debt service requirements to maturity for debt obligations are as follows:

Payments due for years ending February 28:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ ---	\$ ---	\$ 41,718	\$ 66,910
2010	---	---	49,233	65,075
2011	---	---	50,767	62,877
2012	---	---	51,318	60,613
2013	---	---	52,890	58,329
2014	---	---	53,481	55,978
2015	---	---	54,093	53,606
2016	---	---	56,726	51,213
2017	---	---	57,381	48,702
2018	---	---	169,393	46,169
2019	---	---	40,000	39,715
2020	---	---	40,000	37,765
2021	---	---	22,000	35,815
2022	---	---	22,000	34,770
2023	---	---	24,000	33,725
2024	---	---	24,000	32,585
2025	---	---	26,000	31,445
2026	---	---	26,000	30,210
2027	---	---	28,000	28,975
2028	---	---	30,000	27,645
2029	---	---	32,000	26,220
2030	---	---	32,000	24,700
2031	---	---	36,000	23,180
2032	---	---	36,000	21,470
2033	---	---	38,000	19,760
2034	---	---	38,000	17,955
2035	---	---	40,000	16,150
2036	---	---	40,000	14,250
2037	---	---	42,000	12,350
2038	---	---	42,000	10,355
2039	---	---	44,000	8,360
2040	---	---	44,000	6,270
2041	---	---	44,000	4,180
2042	---	---	44,000	2,090
TOTAL	\$ ---	\$ ---	\$ 1,471,000	\$ 1,109,412

**Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008**

NOTE F – Long-Term Debt (Continued)

1981 General Obligation Bonds

On March 11, 1981, the Village entered into a contract with the Van Buren County Board of Public Works to finance, construct, and operate an improved sanitary sewage disposal system. The system is known as Van Buren County Sanitary Sewage Disposal System #6 (Village of Lawrence). The Village's share of the project of \$520,000 was financed by the sale of bonds through the County Agency. Federal and state grants were obtained to finance the remaining cost.

The Village will lease the system until such time as the bonds are paid in full. At that time, the Village will become the owner of the system. The lease cost will include the operation, maintenance, and management of the system, and the payment of the debt service requirement. The Village has assumed responsibility for payment of the bonds, as reflected on the balance sheet of the Sewer Fund.

These bonds are general obligations of the Village and require the use of tax moneys to meet principle and interest payments if necessary.

2002 General Obligation Bonds

On July 16, 2002 the Village issued a water and sanitary sewage collection use disposal revenue bond not to exceed \$1,000,000, for the purpose of paying part of the cost of acquiring and constructing water supply improvements to serve the Village. The bond is payable in annual installments due January 1st and repayment is not expected to exceed forty years. The bonds bear interest at 4.75% per annum calculated on the daily outstanding balance. Interest is payable semiannually and is paid on January 1 and July 1.

Note with Economic Development Corporation of Van Buren County

On August 30, 2007 the Village received a loan from the Economic Development Corporation of Van Buren County for the construction of a water tower. The loan is payable in annual installments of \$24,658 due August 30 until 2016. The remaining principal of \$131,393 is due August 30, 2017. The note bears interest at 3.5% per annum.

NOTE G – Employee Retirement and Benefit System

Plan Description

The Village participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full time employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at: 447 N. Canal Road, Lansing, Michigan 48917.

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE G – Employee Retirement and Benefit System (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village's personnel policy, which does not require employees to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is zero percent of covered payroll.

Annual Pension Costs

For the year ended February 29, 2008, the Village's annual pension cost of zero for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal funding cost method. Significant actuarial assumptions used included an 8% investment rate of return, projected salary increases of 4.5% for base inflation, plus 0.0% to 4.5% for merit and longevity.

Three Year Trend Information

Three year trend information as of December 31, 2007 follows:

	2005	2006	2007
Annual pension cost	\$ 656	\$ 96	\$ 0
Percentage of APC contributed	100	100	100
Net pension obligation	0	0	0
Actuarial value of assets	140,414	146,778	152,140
Actuarial accrued liability	80,931	87,921	89,825
Unfunded (over funded) AAL	(59,483)	(58,857)	(62,315)
Funded ratio	173	167	169
Covered payroll	21,174	0	0
UAAL as a percentage of covered payroll	0	0	0

NOTE H – Commitments and Contingencies

Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Village participates in the Michigan Municipal Worker's Compensation Fund risk pools for the purpose of its workers compensation coverage.

The Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts

Village of Lawrence, Michigan
Notes to the Financial Statements
For the Year Ended February 29, 2008

NOTE I – Contingent Liability

The Village has received a \$250,000 grant from the Michigan Strategic Fund for the addition of a water tower. The grant is contingent upon the creation of 25 jobs and \$250,000 in capital acquisitions by March 31, 2009. If the jobs are not created and the capital acquisitions made within the time frame allowed, the Village may be obligated to pay the \$250,000 back to the Michigan Strategic Fund.

The Village has entered into an agreement with a local company to create the 25 new permanent jobs and make the capital acquisitions by March 31, 2009. If this local company does not fulfill these requirements and the Village is obligated to pay the \$250,000 back to the Michigan Strategic Fund, the Village may have recourse with this local company.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawrence, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
REVENUES				
Property taxes	\$ 142,900	\$ 148,007	\$ 145,606	\$ (2,401)
Licenses and permits	5,930	3,712	3,786	74
Intergovernmental revenues				
State shared revenues	127,500	121,032	121,032	-
Liquor license fees	1,400	1,155	1,155	-
	<u>128,900</u>	<u>122,187</u>	<u>122,187</u>	<u>-</u>
Charges for services				
Cable franchise fees	-	3,413	3,413	-
Ordinance fines	200	17	17	-
Charges for services rendered	5,100	6,309	6,308	(1)
	<u>5,300</u>	<u>9,739</u>	<u>9,738</u>	<u>(1)</u>
Interest	10,000	16,767	16,766	(1)
Miscellaneous				
Equipment rental	50,000	61,442	70,199	8,757
Refunds and rebates	5,000	8,021	2,740	(5,281)
Miscellaneous	5,000	14,919	5,753	(9,166)
	<u>60,000</u>	<u>84,382</u>	<u>78,692</u>	<u>(5,690)</u>
Total Revenues and Other Financing	\$ 353,030	\$ 384,794	\$ 376,775	\$ (8,019)
EXPENDITURES				
General government				
Village council				
Salaries	\$ 4,680	\$ 4,680	\$ 4,680	\$ -
Payroll taxes	-	-	2,265	(2,265)
Memberships and dues	1,000	984	-	984
Conferences	500	527	527	-
Mileage	200	-	-	-
Miscellaneous	700	235	234	1
	<u>7,080</u>	<u>6,426</u>	<u>7,706</u>	<u>(1,280)</u>
President				
Salaries	1,560	1,560	1,560	-
Payroll taxes	-	-	-	-
Mileage	100	-	-	-
Training and conferences	200	-	-	-
Miscellaneous	150	35	35	-
	<u>2,010</u>	<u>1,595</u>	<u>1,595</u>	<u>-</u>
Other executive activities				
Village administrator	35,360	35,360	35,360	-
Contracted services	-	-	-	-
Accounting	-	2,750	2,750	-
Auditing	15,000	14,420	14,420	-
Budgeting	750	-	51	(51)
Legal	2,000	2,016	2,682	(666)
County computer	1,500	-	-	-
Insurance	17,500	13,900	13,899	1
Miscellaneous	860	800	607	193
	<u>72,970</u>	<u>69,246</u>	<u>69,769</u>	<u>(523)</u>

Village of Lawrence, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
Elections				
Printing and publishing	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Clerk				
Salary	2,400	2,400	2,400	-
Office Salary	-	-	-	-
Deputy clerk salary	-	-	-	-
Payroll taxes	-	-	-	-
Dental insurance	-	-	-	-
Health insurance	-	-	-	-
Life insurance	-	-	-	-
M.E.R.S	50	-	-	-
Vacation pay	-	-	-	-
Sick pay	-	-	-	-
Holiday pay	-	-	-	-
Contracted services	10,031	8,900	9,672	(772)
Postage and office supplies	1,000	1,175	1,175	-
Membership and dues	50	65	65	-
Mileage	50	-	-	-
Training and seminars	-	-	-	-
Unemployment	-	-	-	-
Office equipment maintenance	600	402	402	-
Miscellaneous	2,200	1,591	(1,954)	3,545
	16,381	14,533	11,760	2,773
Treasurer				
Salary	1,200	1,200	1,200	-
Payroll taxes	-	-	-	-
Postage	650	500	436	64
Insurance and bonds	-	-	-	-
Miscellaneous	250	300	300	-
	2,100	2,000	1,936	64
Village hall and grounds				
Hall-supplies	-	-	-	-
Contracted services	3,120	850	847	3
Utilities-telephone	1,350	307	339	(32)
Utilities-heat	5,400	1,856	2,130	(274)
Utilities-water and sewer	250	-	-	-
Repairs and maintenance	1,500	1,978	2,568	(590)
Equipment maintenance	200	-	-	-
Equipment rental	200	1,557	1,848	(291)
Equipment acquisition	2,000	-	-	-
Miscellaneous	250	275	275	-
	14,270	6,823	8,007	(1,184)
Village property				
Insurance	250	-	-	-
Total general government	116,061	101,623	100,773	850

Village of Lawrence, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
Public safety				
Police				
Postage/office supplies	\$ -	\$ 34	\$ 34	\$ -
Contracted services	32,000	96,000	80,118	15,882
Legal services	500	45	45	-
Telephone	500	444	489	(45)
Miscellaneous	250	-	-	-
	<u>33,250</u>	<u>96,523</u>	<u>80,686</u>	<u>15,837</u>
Fire protection				
Fire hydrant rent	-	-	-	-
Inspection department				
Postage/office supplies	-	-	-	-
Contracted services	-	-	-	-
Miscellaneous	-	289	289	-
	<u>-</u>	<u>289</u>	<u>289</u>	<u>-</u>
Planning commission				
Salaries	1,800	1,100	1,100	-
Payroll taxes	-	-	-	-
Contracted services	8,500	5,225	5,225	-
Workshops and conferences	500	65	65	-
Printing and publishing	1,000	972	972	-
Legal services	500	585	585	-
Miscellaneous	50	-	-	-
	<u>12,350</u>	<u>7,947</u>	<u>7,947</u>	<u>-</u>
Crossing guard				
Salaries	2,000	2,550	2,247	303
Payroll taxes	-	-	-	-
Miscellaneous	-	-	-	-
	<u>2,000</u>	<u>2,550</u>	<u>2,247</u>	<u>303</u>
Total public safety	47,600	107,309	91,169	16,140
Public works				
Department of public works				
Salaries	-	13,180	13,300	(120)
Postage/office supplies	200	53	53	-
Operating supplies	1,000	7,910	7,922	(12)
Uniforms	100	183	201	(18)
Contracted services	-	-	-	-
Reallocation equip repairs	34,950	-	-	-
Reallocation garage lab	-	-	-	-
Reallocation shop time	-	-	813	(813)
Utilities and telephone	1,000	3,446	4,132	(686)
Gas and oil	5,000	7,449	8,989	(1,540)
Street lights	-	1,906	1,906	-
Repairs and maintenance	14,000	25,139	28,006	(2,867)
Printing and publishing	-	429	429	-
Miscellaneous	1,100	469	657	(188)
Equipment acquisition	4,250	2,992	2,992	-
	<u>61,600</u>	<u>63,156</u>	<u>69,400</u>	<u>(6,244)</u>

Village of Lawrence, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
Sidewalks				
Contracted services	\$ 1,560	\$ 800	\$ 813	\$ (13)
Repairs and maintenance	11,000	7,438	7,438	-
Equipment rental	500	650	665	(15)
Miscellaneous	50	-	-	-
	<u>13,110</u>	<u>8,888</u>	<u>8,916</u>	<u>(28)</u>
Sanitation				
Operating supplies	100	-	-	-
Contracted services	3,640	9,368	9,441	(73)
Equipment rental	2,000	2,515	2,515	-
Miscellaneous	100	-	-	-
	<u>5,840</u>	<u>11,883</u>	<u>11,956</u>	<u>(73)</u>
Village park				
Operating supplies	250	1,332	1,332	-
Contracted services	8,000	17,350	17,890	(540)
Tree planting and trimming	800	600	600	-
Christmas décor	800	1,216	1,215	1
Repairs and maintenance	-	2,820	2,819	1
Equipment rental	3,200	6,395	6,546	(151)
Miscellaneous	100	829	914	(85)
	<u>13,150</u>	<u>30,542</u>	<u>31,316</u>	<u>(774)</u>
Total public works	93,700	114,469	121,588	(7,119)
Capital outlay	-	-	-	-
Total Expenditures	257,361	323,401	313,530	9,871
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	95,669	61,393	63,245	1,852
Fund balance, beginning of year	414,185	414,185	414,185	-
Fund Balance, End of Year	\$ 509,854	\$ 475,578	\$ 477,430	\$ 1,852

Village of Lawrence, Michigan
Budget Comparison Schedule - Major Street Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 45,400	\$ 46,125	\$ 45,168	\$ (957)
Intergovernmental revenues	62,000	73,700	83,830	10,130
Miscellaneous	100	900	870	(30)
Interest	2,400	950	939	(11)
Total Revenues	109,900	121,675	130,807	9,132
EXPENDITURES				
Winter maintenance	12,260	17,500	29,163	(11,663)
Routine street maintenance	26,170	24,810	24,017	793
Traffic services	3,050	9,900	10,859	(959)
Administrative	8,333	5,600	5,850	(250)
Bridges	55,600	4,000	3,968	32
Tree trimming	4,000	3,200	3,150	50
Street construction	-	2,250	2,250	
Total Expenditures	109,413	67,260	79,257	(11,997)
EXCESS OF REVENUES OVER EXPENDITURES	487	54,415	51,550	(2,865)
Fund balance, beginning of year	18,253	18,253	18,253	-
Fund Balances at End of Year	\$ 18,740	\$ 72,668	\$ 69,803	\$ (2,865)

Village of Lawrence, Michigan
Budget Comparison Schedule - Local Street Fund
For the Year Ended February 29, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Fav (Unfav)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Property Taxes	\$ 25,000	\$ 23,200	\$ 22,584	\$ (616)
Intergovernmental revenues	16,500	19,500	21,180	1,680
Interest	1,200	660	658	(2)
Miscellaneous	600	500	906	406
Total Revenues	<u>43,300</u>	<u>43,860</u>	<u>45,328</u>	<u>1,468</u>
EXPENDITURES				
Road construction	-	-	-	-
Routine maintenance	18,200	12,235	12,419	(184)
Tree trimming	2,000	1,775	1,775	-
Traffic services	12,100	5,230	5,638	(408)
Winter maintenance	8,000	11,080	17,474	(6,394)
Administrative	2,600	3,000	3,112	(112)
Total Expenditures	<u>42,900</u>	<u>33,320</u>	<u>40,418</u>	<u>(7,098)</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	400	10,540	4,910	(5,630)
Fund balance, beginning of year	<u>63,815</u>	<u>63,815</u>	<u>63,815</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 64,215</u>	<u>\$ 74,355</u>	<u>\$ 68,725</u>	<u>\$ (5,630)</u>

**Village of Lawrence, Michigan
Schedule of Findings and Responses
For the Year Ended February 29, 2008**

FINDINGS AND RESPONSES

Reference Number	Audit Finding
08-1	The Village does not have adequate segregation of duties.
08-2	Month-end closing procedures and reconciliations for cash, accounts receivable, due to/due from and other balance sheet accounts are not performed timely and accurately.

Reference Number	Management Responses
08-1	The Village has a small office with only two employees. To help mitigate the risk associated with the lack of segregation of duties, the Village is going to provide more supervision from their Village Administrator and Village Council.
08-2	Village management is going to receive training from outside consultants, look to integrate their accounting system, provide more oversight and supervision, and develop month-end closing procedures.

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Lawrence, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lawrence, Michigan, (the Village) as of and for the year ended February 29, 2008, which collectively comprise the Village of Lawrence, Michigan's basic financial statements and have issued our report thereon dated August 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Lawrence, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses at 08-1 and 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 08-1 and 08-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Lawrence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Seber Tans, PLC
Kalamazoo, Michigan

August 7, 2008

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 7, 2008

To the Village Council
Village of Lawrence, Michigan

In planning and performing our audit of the financial statements of Village of Lawrence for the year ended February 29, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. Significant deficiencies involve matters coming to our attention relating to control deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls. However, we noted the following significant deficiencies that we believe to be material weaknesses.

Segregation of Duties

The Clerk has the following incompatible duties (1) prepares invoices sent to water and sewer customers, (2) receives payments under single control (3) prepares and delivers the bank deposit (4) posts customer payments to the accounts receivable subsidiary ledger and the general ledger, and (5) has ability to make adjustments, including write-offs to customers' accounts. Allowing these duties to be performed by one individual increases the risk that errors or fraud may occur and go undetected. This risk is further increased because the Village accepts cash payments from customers and the timely reconciliations of accounts receivable subsidiary ledgers to the control accounts in the general ledger are not performed (as discussed in detail under the reconciliations section below).

We recommend that the Village Council closely monitor the financial activities of the Village and that the Village continue to explore ways of segregating duties and monitoring financial activities, especially in the highly critical areas. We recommend that bonding of all personnel be periodically reviewed to assure that adequate coverage is maintained. Given the small size of the

Village's office performing reconciliations between the subsidiary ledger and the general ledger is a necessity.

Reconciliations

During our audit, we noted that subsidiary accounts receivable ledgers are not being reconciled to the control accounts in the general ledger. We recommend that the accounts receivable subsidiary ledgers be reconciled to the control accounts in the general ledger on a monthly basis, and that any differences be investigated and corrected in a timely manner. Additionally, we recommend that management review and initial the reconciliations to ensure propriety and completeness.

We also noted that bank reconciliations are not being performed in a timely manner. Several instances of accounts not being reconciled for several months were noted. We recommend that the bank statements be opened by management and that reconciliations be performed in a timely manner. Additionally, we recommend that management review and initial the reconciliations to ensure propriety and completeness.

We further noted that "due to" and "due from" accounts are not being reconciled in a timely manner. Several bills were paid out of general fund cash for other funds and the appropriate entries in the other funds to record the payable to the general fund and the expenditure were not made. We recommend that "due to" and "due from" reconciliations be performed monthly and management review and initial the reconciliations to ensure propriety and completeness.

Month-End Closing Procedures

As a result of our audit we proposed more than 50 adjusting journal entries, the effect of which was to decrease current year results of operations and fund balances by approximately \$191,000. Substantially all of the entries proposed were to correct bookkeeping errors or to make required accruals and other adjustments that we believe should have been recorded by management. We believe that a review and evaluation of transactions and proper month-end closing procedures (including reconciliations) would significantly increase the accuracy and timeliness of monthly financial information.

Disbursement Checks

During our audit, we noted that at year-end, the Clerk manipulated check dates on disbursements in the accounting system in order to place the expenditures in specific periods. The alternative would have been to record accounts payables. We recommend that the Village institute policies and controls to ensure proper cutoff.

These material weaknesses and other significant deficiencies were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2008 financial statements, and this report does not affect our report on those financial statements dated August 7, 2008. We have not considered internal control since the date of our report.

This report is intended solely for the information and use of the Village Council, management, and other within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


Seber Tans, PLC